1965

REPORT OF THE FACULTY WELFARE COMMITTEE. Initiation of the TIAA-CREF plan of tax-sheltered annuities for faculty and administration.

University of Rhode Island Faculty Senate

BILL 57
(Quadruplicate)

UNIVERSITY OF RHODE ISLAND
Kingston, Rhode Island
FACULTY SENATE

Transmittal Form for Bills Approved by the Faculty Senate

From: The Chairman, Faculty Senate
To: The President, Dr. Francis H. Horn
Enclosure

1. The attached bill, entitled REPORT OF THE FACULTY WELFARE COMMITTEE. Initiation of the TIAA-CREF plan of tax-sheltered annuities for faculty and administration.
is hereby forwarded to you for your consideration.

2. The official original and 2 copies for your use are attached.

3. This bill was approved by vote of the Faculty Senate on March 18, 1965.
(date)

4. After your consideration, will you kindly indicate your approval or disapproval, as appropriate, and return it, completing the appropriate endorsement below.

March 24, 1965 (date)

H. Perry Jeffries (Signature) Chairman, Faculty Senate.

Endorsement I.

From: The President, University of Rhode Island
To: The Chairman, Faculty Senate

1. Returned.
2. Approved_____. Disapproved_____.
3. (If approved) In my opinion, transmittal to the Board of Trustees would not be desired by the Board and is unnecessary.

__________ (date) __________ (Signature) President, Univ. of R.I.

Received __________ (date) __________ (Signature) Chairman, Faculty Senate

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Original forwarded to Secretary of the Senate and Registrar, E. Farrell, for filing in the archives of the University.

__________ (date) __________ (Signature) Chairman, Faculty Senate

Re Bills 57 & 58 attached

April 9, 1965

Dr. H. Perry Jeffries
Chairman, Faculty Senate
Narragansett Bay Campus

Dear Perry:

I sometimes find Bob Harrison's approach to problems just the opposite from what he intended. In order to simplify actions of the Senate, which had to come to me for some kind of action, he developed his forms which, in effect, provide only two alternatives; approved or disapproved. But action on decisions of the Senate are often like life itself; pretty complicated and scarcely decided in terms of a yes-no, black-white, good-bad distinction. Such is the case with Bills 57 and 58. In both cases, of course, I do not have final approval. In the case of at least Bill 58, even the Board of Trustees doesn't have final approval, since legislation will be required to implement the provision. So let me tell you what action I have taken with regard to these two bills.

With regard to Bill 57, although I am in favor of this, I did not present it to the Board of Trustees at its meeting on April 7. I am convinced that to try to get too many faculty fringe benefits through at one time can only result in unfavorable reaction if not, indeed, unfavorable action upon the various proposals. Consequently, I decided to hold up the recommendation on tax shelter annuities until I knew what the Board's position was on the TIAA proposal which, in my opinion, is the most important fringe benefit before us at this particular time. I recognize that it can be argued that the tax sheltered annuity is not a new benefit so far as the state is concerned, but merely a bookkeeping transaction. Yet it will raise a whole group of questions from the Legislature and perhaps from other state employees. I feel that we cannot jeopardize favorable action on the TIAA, therefore, by proposing this to the Board at this time.

The recommendations regarding the TIAA plan were presented with the endorsement of the three presidents. The Board received the report and will give it careful consideration. My impression is that the members of the Board are in favor of the proposal, but recognize certain problems in getting it implemented by legislation. There is, of course, the matter of obtaining an additional appropriation, estimated to be \$300,000. This at a time in which the state budget is in a rather precarious balance. I recognize that the net cost is estimated to be only \$135,000, but the \$300,000 figure is the one that will be seen. In addition, we suspect that without considerable preparation in advance, by way of explanation and support, we may run into some difficulties with other state employees and, consequently, in the Legislature. The Board does not want to engender our position that might prove difficult to overcome. Consequently, it is the Board's intent, as I understand it, to have some meetings with these who might be inclined to oppose the legislation, after the present Legislature adjourns. After paving the way and winning support from groups that might otherwise not be inclined to go along, I feel certain that the Board will approve the proposal and introduce legislation at the next session. Hopefully, then, it will become effective with the academic year 1966-67.

As you know, I have urged that we adopt the TIAA system for a number of years. I had a proposal made by TIAA long before the Faculty Senate got into this matter. I'm one hundred per cent behind it, but I do recognise that this is the sort of legislation that requires very careful strategy in trying to effectuate. I trust that the work that the Board and those of us in the institutions will do on this in the coming months will insure successful passage of whatever legislation is introduced.

I note in your report to me of March 22 that the Senate also passed a resolution requesting the University to provide medical insurance for the faculty and that families should be included along with the individual. You will recall that when the matter was discussed on the Senate floor, Mr. Duhamel made a rough estimate that the proposal would cost the state, for our faculty alone, $130,000. I assume that the resolution is presented to me for whatever action I care to take. Right now, I shall take no action. I haven't even reported this to the Board. I can assure you that to have done so on top of the TIAA request, would not have been received very sympathetically. I find it difficult, incidentally, to follow faculty reasoning in a matter of this nature. On top of fairly substantial salary increases, to expect to get the TIAA plus the entire contribution for Blue Cross and Blue Shield and major medical insurance for all members of our faculty and the administration, including their families, is just too much of a package to expect to be received favorably.

I'm not sure when I shall report this action of the Senate to the Board of Trustees officially, although since I am sending a copy of this letter to the chairman of the Board he will know that the matter has been proposed. I should point out, incidentally, that there is legislation before the General Assembly which would raise the salary limit to $8,000 as the cut-off point at which the state pays the Blue Cross-Blue Shield costs. I suspect that, in time, this will be raised still further and eventually some sort of medical provision included, but unlike the provision for TIAA, where I don't think we're going to get any major opposition after we take the preliminary educating steps for the other state employees, I do feel that we would run into opposition to the proposal for medical coverage. Incidentally, there are all kinds of major medical proposals. I would ask the Faculty Senate to make a specific proposal as to the type of major medical coverage that it wishes to have considered.

Cordially,

Francis H. Horn
President

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cc: Mr. George W. Kelsey

UNIVERSITY OF RHODE ISLAND
Kingston, Rhode Island

FACULTY SENATE

March 18, 1965

Report of Faculty Welfare Committee

TAX-SHELTERED ANNUITIES - (SALARY OR ANNUITY OPTION)

Under the technical Amendment Act of 1958 - amended Section 403 (b) of the Internal Revenue Code, the annuity contributions by a tax exempt organization (in our case the State of Rhode Island or the University of Rhode Island) as per Section 501 (c) (3) of the I.R. Code are not taxable as current income to the employee owning the "tax-sheltered" annuity. Since the compensation will be deferred it will be taxable to the employee as he receives it after retirement in the form of annuity income.

Out of the employee's salary, the employer buys a non-forfeitable (fully vested) annuity contract for his employee up to 20% of the taxable income the employer pays his employee for the calendar year.

A 1962 amendment to the I.R. code added the requirement that the annuities be "non-transferable." This simply means that the individual must not have the right to transfer ownership of the contract to another person, so that the contract must be non-assignable.

It is clear that annuity contributions are not "wages" and they should not be reported on Income Tax Form W-2 and then in the tax return of the employee.

The main advantage of the plan is that the amount of contribution goes right to the annuity without any income tax being paid at the current rate of assessment to the employee. Instead, after retirement when the annuity payments are being received by the former employee, he is assessed income tax on his annuity income at what should be much lower rates due to his reduced retirement income. The potential tax saving is quite obvious, if the retired employee's income is substantially lower after retirement.

Implementing this plan requires no change in legislation and would cost the state nothing except a little time in bookkeeping.

Recommendation:

After reviewing tax-sheltered annuity plans submitted by two private insurance companies and TIAA-CREF, it is recommended that the Faculty Senate ask the administration to take the necessary steps to make available to the faculty and administration the TIAA-CREF plan of Tax-Sheltered Annuities.